

**DIRECT TESTIMONY OF
ALICE A. FOX
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2010-5-G**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Alice A. Fox and my current business address is 220 Operation Way, Cayce, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by SCANA Services, Inc. as the Manager of Regulatory Accounting and Gas Rates.

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a 1981 graduate of Clemson University with a Bachelor of Science Degree in Accounting. In October 1981, I began working for South Carolina Electric & Gas Company (“SCE&G” or “Company”) as an Internal Auditor. Since that time, I have held various supervisory and management positions within the areas of Corporate Planning and Budgeting, VC Summer Station Accounting, and SCANA Services Reporting and Cost Measurement. In April 2006, I assumed my current position within the Gas Rates and Regulatory Accounting area within Rates and Regulatory Services.

1 **Q. WILL YOU BRIEFLY SUMMARIZE THE DUTIES YOU PERFORM FOR**
2 **SCE&G?**

3 A. In my current role I am responsible for the regulatory accounting function
4 of SCE&G which includes oversight of the quarterly return on equity reporting for
5 both electric and gas service in South Carolina. I serve as the Company liaison for
6 questions received from and support for audits performed by the South Carolina
7 Office of Regulatory Staff (“ORS”) for all general rate proceedings, purchased gas
8 adjustment (“PGA”) proceedings, and Natural Gas Rate Stabilization Act (“RSA”) proceedings.
9 I also manage the gas rates area of SCE&G which is responsible for
10 the gas cost recovery mechanism as well as the development of gas cost of service
11 studies, rate analyses, and rate design.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. The purpose of my testimony is to support the cost of gas (“COG”) data,
15 including the over/under collection amount for the period under review in this
16 proceeding, which is August 1, 2009 through July 31, 2010 (“Review Period”). I
17 also update the Commission on the impact to SCE&G customers of the
18 modification to the material difference factor change qualifier from \$.01 to \$.04
19 per therm as approved in Commission Order No. 2009-910.

1 **Q. PLEASE DESCRIBE THE COMPANY’S PGA GAS COST RECOVERY**
2 **MECHANISM AS CURRENTLY ADMINISTERED BY SCE&G.**

3 A. SCE&G sets the gas cost factor for each customer class each month using a
4 rolling 12-month forecast of both demand and commodity costs. SCE&G updates
5 its COG forecast each month using the most current New York Mercantile
6 Exchange (“NYMEX”) prices as well as the hedging effect for each of the next 12
7 months. SCE&G uses the NYMEX closing prices for a date selected by the
8 Company that allows the revised rates to be filed in time to notify the Commission
9 before the first billing cycle of the next month. The forecast is reviewed monthly
10 and updated as needed to reflect current assessments of anticipated industrial
11 margins, capacity release credits, hedging impacts, and firm sales levels. The
12 recalibrated 12-month recovery factor, adjusted to zero-out any prior month’s over
13 or under recovery for the 12-month period, sets the gas cost recovery factors for
14 the upcoming month. After notifying the Commission and ORS, the new factors
15 are implemented for the first billing cycle of the following month.

16 **Q. WHAT ARE THE UPDATED DEMAND COG ALLOCATION (“DCOG”)**
17 **FACTORS?**

18 A. The Company reviews the DCOG allocation factors each year during the
19 PGA proceeding and updates the factors to reflect current forecast assumptions.
20 Pursuant to Order No. 2006-679, these DCOG allocation factors are based on a
21 weighting of 50% forecast sales and 50% forecast peak design day demand. The
22 forecast peak design day demand for the upcoming 2010-2011 winter is 378,538

1 dekatherms after adjusting for system losses. This resulting forecast is used for
2 capacity planning purposes as illustrated in the testimony and exhibits of
3 Company Witness Kahl. Based on the latest annual sales and demand forecasts,
4 the new demand allocation factors will be 65.96% for Residential, 31.46% for
5 Small General Service/Medium General Service (“SGS/MGS”) and 2.58% for
6 Large General Service (“LGS”) usage groups. SCE&G respectfully requests that
7 these new DCOG allocation factors be approved by the Commission and made
8 effective for the first billing cycle of January 2011.

9 **Q. WHAT ARE THE COMPANY’S CURRENTLY APPROVED FACTORS**
10 **FOR THE COG?**

11 A. As of September 24, 2010, the COG factors are \$.68335 per therm for
12 Residential, \$.60111 per therm for SGS/MGS and \$.69340 per therm for LGS.
13 These factors include a Firm Commodity Benchmark for all firm customer groups
14 of \$.43986 per therm. Under the provisions of Order Nos. 2006-679 and 2009-
15 910, SCE&G calculates monthly and files adjustments to the COG factors as
16 required.

17 **Q. DURING THE REVIEW PERIOD, HAS SCE&G ADMINISTERED THE**
18 **PGA MECHANISM IN ACCORDANCE WITH THE TERMS OF ORDER**
19 **NOS. 2006-679 AND 2009-910?**

20 A. Yes. During the Review Period, SCE&G carefully implemented the PGA
21 mechanism as approved in Order Nos. 2006-679 and 2009-910. The results are set

1 forth on Exhibit No.____ (AAF-1). This exhibit accurately reflects administration of
2 the PGA recovery mechanism as approved by the Commission.

3 **Q. PLEASE EXPLAIN EXHIBIT NO. ____ (AAF-1).**

4 A. Exhibit No. ____ (AAF-1) shows monthly over and under collections
5 experienced by SCE&G in administering the PGA mechanism during the Review
6 Period. This exhibit shows that SCE&G entered the Review Period with an over
7 collection of \$5,892,936. As of the end of the Review Period, the over collected
8 balance was \$13,551,603. This increase is attributable to two major factors. First,
9 this Review Period encompassed an extremely cold winter. Hence, in the winter
10 months during the Review Period, SCE&G sold 13.4% more firm therms of gas
11 than was projected. Second, as requested in Docket No. 2009-5-G and approved
12 in Order No. 2009-910, in December 2009 SCE&G made a one-time entry to the
13 demand over collection in the amount of \$14,761,852 to record the initial unbilled
14 portion of purchased gas costs. SCE&G records interest on any monthly
15 over/under collection at a rate equal to the 10-year Treasury rate plus 65 basis
16 points as approved in Order No. 2006-679. Using this approved interest
17 mechanism, our customers were credited with an interest benefit in the amount of
18 \$381,000 in the Review Period. As of August 31, 2010, the ending Review Period
19 over collected balance of \$13,551,603 had been reduced to \$12,477,302.

20 **Q. PLEASE EXPLAIN EXHIBIT NO. ____ (AAF-2).**

21 A. Exhibit No. ____ (AAF-2) shows a summary of the monthly forecast of gas
22 cost components and the resulting monthly over and under collection balances.

1 The end of period balance of zero shows that the forecasted gas cost factors are
2 projected to eliminate any over/under collection amount by the end of the forecast
3 period ending August 2011.

4 **Q. HOW MANY TIMES DID SCE&G CHANGE THE COG FACTORS AFTER**
5 **THE COMMISSION APPROVED THE MODIFICATION TO THE**
6 **“MATERIAL DIFFERENCE” DEFINITION IN ACCORDANCE WITH**
7 **ORDER NO. 2009-910?**

8 A. In Order No. 2009-910, the Commission approved a material difference of
9 \$.04 per therm as the criteria necessary to change the monthly gas cost factors.
10 This was an increase from \$.01 per therm. The Commission also approved the
11 Company’s request that if a change in combined commodity and demand
12 components for any of the three usage groups was equal to or less than the \$.04
13 criteria, then rates could be adjusted at the discretion of the Company. The
14 Commission’s approval of this increase in the threshold amount has reduced the
15 number of rate changes that would have otherwise occurred had the previous
16 threshold been in effect. Fewer rate changes, in turn, create less customer
17 confusion while still allowing the Company to manage over/under collections. In
18 the Review Period, since the threshold changed to \$.04 in January 2010, rates
19 changed three times. For comparison purposes, had the material threshold of \$.01
20 been in place during this same period, rates would have changed seven times.

1 **Q. WHAT IS SCE&G REQUESTING IN THIS PROCEEDING?**

2 A. SCE&G respectfully requests the Commission find 1) that during the
3 Review Period, the Company properly administered the PGA mechanism and
4 correctly adjusted the gas cost recovery factors for each customer usage group in
5 accordance with the terms of Order Nos. 2006-679 and 2009-910; 2) that the
6 Company recovered its gas costs for the Review Period consistent with its tariffs
7 and Commission orders and that it purchased its gas supplies and administered the
8 PGA in a prudent and reasonable manner; and 3) that the current gas cost recovery
9 mechanism be continued.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes.

**SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PURCHASE GAS ADJUSTMENT
OVER/UNDER COLLECTION**

		<u>COMM. COST PER THERM (COL. 1)</u>	<u>BILLING COMM. COST PER THERM (COL. 2)</u>	<u>DIFFERENCE (COL. 3) (1-2)</u>	<u>FIRM SALES THERMS (COL. 4)</u>	<u>COMMODITY (OVER)UNDER COLLECTION (COL. 5) (3x4)</u>	<u>DEMAND (OVER)UNDER COLLECTION (COL. 6)</u>	<u>COMMODITY AND DEMAND PRIOR MTH ADJ.'S (COL. 7)</u>	<u>TOTAL MONTHLY (OVER)UNDER COLLECTION (COL. 8) (5+6+7)</u>	<u>CUMULATIVE (OVER)UNDER COLLECTION (COL. 9)</u>
BEGINNING BALANCE --										(\$5,892,936)
AUG 09	Actual	\$0.42904	\$0.53366	(\$0.10462)	6,731,357	(\$725,074)	\$3,403,982	\$0	\$2,678,908	(\$3,214,028)
SEP 09	Actual	\$0.35657	\$0.52093	(\$0.16436)	6,910,831	(\$1,175,160)	\$2,998,582	(\$108,811)	\$1,714,611	(\$1,499,417)
OCT 09	Actual	\$0.61370	\$0.53944	\$0.07426	9,255,932	\$638,910	\$2,640,642	\$0	\$3,279,552	\$1,780,135
NOV 09	Actual	\$0.66724	\$0.53944	\$0.12780	14,015,823	\$1,754,027	\$22	\$0	\$1,754,049	\$3,534,183
DEC 09	Actual	\$0.75542	\$0.49929	\$0.25613	27,955,134	\$7,145,677	(\$18,536,939)	\$0	(\$11,391,262)	(\$7,857,079)
JAN 10	Actual	\$0.64805	\$0.55189	\$0.09616	48,637,288	\$4,679,295	(\$7,857,253)	\$0	(\$3,177,957)	(\$11,035,037)
FEB 10	Actual	\$0.59181	\$0.55189	\$0.03992	41,795,077	\$1,680,277	(\$6,278,452)	\$0	(\$4,598,175)	(\$15,633,211)
MAR 10	Actual	\$0.36785	\$0.55189	(\$0.18404)	39,249,024	(\$7,221,214)	\$5,628,482	\$0	(\$1,592,732)	(\$17,225,944)
APR 10	Actual	\$0.25519	\$0.52911	(\$0.27392)	15,346,325	(\$4,182,275)	\$4,790,072	\$0	\$607,797	(\$16,618,147)
MAY 10	Actual	\$0.38335	\$0.47717	(\$0.09382)	8,618,023	(\$784,046)	\$1,847,303	\$0	\$1,063,258	(\$15,554,889)
JUN 10	Actual	\$0.35651	\$0.47717	(\$0.12066)	7,788,923	(\$865,647)	\$1,612,013	\$0	\$746,366	(\$14,808,523)
JUL 10	Actual	\$0.44203	\$0.47717	(\$0.03514)	6,897,640	(\$198,927)	\$1,455,847	(\$0)	\$1,256,920	(\$13,551,603)

SOUTH CAROLINA ELECTRIC AND GAS COMPANY
PROJECTED COMMODITY AND DEMAND COSTS
(OVER)/UNDER COLLECTION

	<u>COMM COST</u> <u>PER THERM</u> (COL. 1)	<u>BILLING</u> <u>COMM COST</u> <u>PER THERM</u> (COL. 2)	<u>DIFFERENCE</u> (COL. 3)	<u>FIRM SALES</u> <u>THERMS</u> (COL. 4)	<u>COMMODITY</u> <u>(OVER)UNDER</u> <u>COLLECTION</u> (COL. 5)	<u>DEMAND</u> <u>(OVER)UNDER</u> <u>COLLECTION</u> (COL. 6)	<u>TOTAL</u> <u>(OVER)UNDER</u> <u>COLLECTION</u> (COL. 7)	<u>CUMULATIVE</u> <u>TOTAL</u> <u>(OVER)UNDER</u> <u>COLLECTION</u> (COL. 8)
BEGINNING BAL. @ August 10								(\$10,157,103)
Sep-10	\$0.56014	\$0.43986	\$0.12028	7,122,000	\$856,630	\$1,098,404	\$1,955,035	(\$8,202,069)
Oct-10	\$0.69529	\$0.43986	\$0.25544	8,109,000	\$2,071,331	\$137,401	\$2,208,731	(\$5,993,337)
Nov-10	\$0.78951	\$0.43986	\$0.34965	14,071,000	\$4,919,978	(\$2,633,109)	\$2,286,869	(\$3,706,468)
Dec-10	\$0.61012	\$0.43986	\$0.17026	27,734,000	\$4,721,999	(\$5,726,860)	(\$1,004,861)	(\$4,711,329)
Jan-11	\$0.47500	\$0.43986	\$0.03515	40,479,000	\$1,422,648	(\$7,595,274)	(\$6,172,625)	(\$10,883,954)
Feb-11	\$0.39303	\$0.43986	(\$0.04682)	38,072,000	(\$1,782,654)	\$583,020	(\$1,199,634)	(\$12,083,589)
Mar-11	\$0.38094	\$0.43986	(\$0.05892)	28,490,000	(\$1,678,560)	\$2,073,180	\$394,620	(\$11,688,969)
Apr-11	\$0.34753	\$0.43986	(\$0.09233)	15,993,000	(\$1,476,621)	\$2,973,077	\$1,496,456	(\$10,192,512)
May-11	\$0.43530	\$0.43986	(\$0.00456)	9,997,000	(\$45,596)	\$2,514,105	\$2,468,508	(\$7,724,004)
Jun-11	\$0.49898	\$0.43986	\$0.05913	7,757,000	\$458,641	\$2,284,045	\$2,742,686	(\$4,981,319)
Jul-11	\$0.42773	\$0.43986	(\$0.01212)	7,119,000	(\$86,314)	\$2,219,101	\$2,132,787	(\$2,848,533)
Aug-11	\$0.50460	\$0.43986	\$0.06475	7,103,000	\$459,892	\$2,388,642	\$2,848,534	\$0